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SUBJECT: BOLSA FAMILIA LIKELY TO EXPAND DESPITE CONTROVERSY

11. SUMMARY: Bolsa Familia is the best-known and most popular cash transfer program in Brazil. As the Lula administration's flagship social program, it played an important role in 2006 in securing support for President Lula among the very poor and thus ensuring his re-election. It currently benefits 11.1 million families and costs the federal government approximately USD 4.1 billion per year. Similar state and municipal level programs such as those in Sao Paulo supplement federal stipends for many poor. Although considered a very successful social program -- it is given at least some of the credit for Brazil's recent improved income distribution -- Bolsa Familia remains controversial in Brazil as a tool to combat poverty. Experts who support it point to the fairness of its requirements, the lack of local political influence in its administration, and its impact in improving the standard of living of extremely poor families. While few oppose the program outright, its critics argue that its effects in ameliorating the plight of the poor are temporary and limited and that in the long run, Bolsa Familia will create dependency and perpetuate poverty. Regardless of the continuing controversy surrounding it, Bolsa Familia is likely to be expanded in Lula's second term. End Summary.

OVERVIEW OF THE PROGRAM

12. Bolsa Familia's roots go back to Fernando Henrique Cardoso's administration, when several cash transfer programs were established on a small scale to assist the poor with food, energy, and education costs. In 2004, in Lula's second year in office, the government consolidated four such programs under the Bolsa Familia umbrella. The program is administered by the Ministry of Social Development and the Fight against Hunger and is operated by municipal offices and agencies. The Social Development Ministry establishes the rules and provides the funding. The rules are simple and broad. Poor families -- those who have a per capita income of 120 Reals (about USD 55) or less per month (USD 220 for a family of four) -- are entitled to receive from 15 to 95 Reals per month (USD 7 to 45), depending on the number of children under the age of 15. In return, they are expected to keep their children in school (85 percent attendance), follow the national schedule for vaccinations and, in

the case of pregnant women, have regular pre-natal medical check-ups. The conditional nature of the cash transfers is viewed as the program's most important feature, designed to ensure that even Brazil's poorest children have access to health care and education in the hope that this will enable them to emerge from poverty into the mainstream.

13. Bolsa Familia has been viewed as a success largely because of its efficient operating system. Enrollment of families is done by local governments through offices established for that purpose. As most of Brazil's 5,563 municipalities are relatively small communities, it is easy for them to register poor families and compile such pertinent information as address, income, educational profile, and number of children. This information is then sent to the federal Social Development Ministry, where it is added to a national database called "cadastro unico". This social database is supposed to compile a list of all poor families in Brazil. The Social Development Ministry selects the families for Bolsa Familia from the national database. Once accepted into the program, each beneficiary family receives an electronic bank card, by mail or through the local government, to withdraw their monthly Bolsa Familia stipend from the Caixa Econômica Federal (CEF - federally-owned bank). The bank card is usually given to the adult female of the family on the grounds that she is more likely to spend the funds responsibly.

14. CEF's status as a nationwide public institution with branches in almost every city is key to Bolsa Familia's operation. Moreover, small businesses, such as grocery stores and post offices, also function as independent bank agencies, disbursing social benefits and receiving tax payments. This structure helped the Bolsa Familia program spread quickly. In 2004 there were 6.5 million families enrolled in the program. By mid-2006, the number had grown to 11.1

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million families, according to official statistics published by the Social Development Ministry.

HOW IT WORKS IN SAO PAULO

15. Most state governments have their own complementary cash transfer programs, as do the governments of some large cities, including not only Sao Paulo but also Campinas and Ribeirao Preto, both in the interior of the state. The state itself has a program called Renda Cidadã (Citizen Income), and the city of Sao Paulo has a similar program called Renda Mínima (Minimum Income). Thus, a poor family living in the city could qualify for funding from three different sources at the same time. Though the municipal government is responsible for administering all three programs, they are operated separately, and each issues its own bank card, using different banks. (Sao Paulo uses state-owned Nossa Caixa; the city, Banco do Brasil.) For political reasons, federal, state, and local governments each want to receive credit for their largesse. Each program also has its own database of enrolled participants, though the databases are not fully integrated. For now, it is possible to compare the list of beneficiaries from Bolsa Familia to that of Citizen Income or Minimum Income, but the databases do not interface. When one family is found to be listed on Bolsa Familia and at the same time on Citizen Income or Minimum Income, the stipend is recalculated so as not to exceed a maximum of USD 180.

16. The city's Minimum Income program is broader than Bolsa Familia; it covers more families and pays better stipends - the maximum value under Minimum Income is approximately USD 100 per month for a family with a monthly per capita income of USD 90. The minimum benefit is USD 75. The program covers those whose income is not low enough for them to qualify for Bolsa Familia. When the program was inaugurated during the administration of Mayor Marta Suplicy, the maximum payment was USD 180, but in December 2006, the City Council adopted a proposal by Mayor Gilberto Kassab to reduce the maximum payments and increase the minimum in order to focus the program better on the poorest members of the population.

17. Sao Paulo state's program, Citizen Income, runs in parallel with the Bolsa Familia and targets the same social and economic class. Families who qualify on the basis of income can register in local

offices installed throughout the state and within the metropolitan area. The stipend is fixed - USD 30 per family per month. The requirements are the same as for Bolsa Familia, but applicants must also have resided in Sao Paulo state for at least 2 years. If a family is found to be receiving benefits from both the federal and state government programs, the stipends are combined up to the Bolsa Familia maximum of USD 45. Felicidade Pereira, coordinator of the program at the state level, says that clerks are trained to enroll families in the program - federal, state, or local, or combination thereof - that best fits their needs. "It's a common procedure", Pereira said, "because there are more families waiting for the benefits than funds available to assist them."

¶18. In addition to its Citizen Income program, the state also has Acao Jovem (Youth Action), which is focused on adolescents and young adults between the ages of 15 and 24 years old. The stipend of about USD 25 per month goes directly to the young adult. The program's purpose is to encourage the beneficiary to continue his/her schooling. There are no legal or ethical restrictions that would prevent an individual or family from receiving Bolsa Familia and Youth Action stipends at the same time, or receiving both Youth Action and Citizen Income benefits.

¶19. Official statistics from the state and federal governments show that 1.1 million families in the state are receiving cash transfers from at least one of the programs, out of a total of 1.3 million families with income low enough to qualify. This means there is a waiting list of 200,000 eligible poor families who are not now receiving benefits. The state's Citizen Income program reaches slightly over 167,000 families, while Minimum Income provides

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benefits to just over 37,000 families. Some 66,000 families receive some combination of Citizen Income and Bolsa Familia. The remainder - approximately 940,000 families - receive only a Bolsa Familia stipend.

PROS AND CONS

¶10. Although Brazil's cash transfer programs have been the subject of numerous studies, their social and economic impact is not fully understood. Because the programs are still relatively new (Bolsa Familia was consolidated into a single program in 2004), there isn't enough data to formulate reliable results. This lack of conclusive research fuels the controversy surrounding Bolsa Familia. Following are some of the most common arguments in favor and against Bolsa Familia:

¶11. Focus: The program is considered well-focused, providing money directly to families who need it most. In the past, governmental social programs rarely reached the poorest communities because of lack of infrastructure, and earlier programs were plagued by corruption. Bolsa Familia reaches all the regions in the country. Some observers argue that many poor people remain outside the social safety net system, and advocate an income cutoff lower than USD 55 per month. With this measure, the program would reach more people in the base of the social pyramid. Despite this criticism, Bolsa Familia is generally acknowledged as a program where the benefits hit the right beneficiaries.

¶12. Fairness: The program is respected because it distributes stipends according to need and avoids political influence. The Ministry of Social Development in Brasilia decides who is eligible to receive benefits based on technical criteria, and funds are disbursed from the CEF. In the past, state and local leaders could manipulate the distribution of social assistance according to political loyalty or, worse, could even divert funds to themselves or to family and friends. By consolidating the program within the federal bureaucracy, the Lula administration has kept Bolsa Familia free of local political taint.

¶13. That said, while no one accuses the government of distributing Bolsa Familia funds as a form of patronage, many in the opposition accuse Lula of using the program as an electoral propaganda tool. In April 2006, the Ministry of Social Development increased the program's income threshold from about USD 45 to USD 55 per person,

instantly expanding eligibility. In June 2006, just before the presidential campaign officially began, 1.8 million families became beneficiaries of Bolsa Familia for the first time. The increase in the number of families in one single month was equivalent to 62 percent of beneficiaries in 2004. In addition, whereas in the past, the electoral capital of social programs was shared among different levels of governments and candidates, Bolsa Familia benefits are the sole province of the federal government, further enhancing Lula's image as "father of the poor." His political opponents complained bitterly about his appropriation of a program that had been initiated by his predecessor, and accused him of relaxing eligibility requirements and enforcement as a means of boosting the number of recipients for his own political benefit. During the campaign, Lula also suggested, without evidence and despite denials, that his opponent would sharply curtail or even eliminate the program.

POVERTY REDUCTION...

¶14. The most controversial question related to Bolsa Familia is whether or not it helps reduce poverty. Economists and scholars agree that there has been a reduction in the number of people living below the poverty line in the past few years, and a reduction in social inequality. According to IPEA (Institute of Research on Applied Economy of the Ministry of Planning and Budget), between 2001 and 2005 the number of Brazilians living below the poverty line fell by 4.5%. In the same period, the gap between the richest and

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poorest among the population fell by 4.2%. However, Bolsa Familia is only one part of governmental cash transfers. For example, the GoB pays social security pensions for 30 million retired rural workers, who made minimal or no contributions into the social security system, at a cost of approximately USD 35 billion per year, which likely has a much greater impact on poverty than does Bolsa Familia. At least one academic study the Mission is aware of has found that the rural pensions had the biggest impact on poverty in Brazil over the last decade.

...OR SOCIAL DEPENDENCE

¶15. In November, the National Conference of Brazilian Bishops (CNBB) criticized Bolsa Familia as an ill-advised program because it would make poor people "addicted to the money." Other church officials have characterized Bolsa Familia as a good emergency assistance program enabling poor people to eat better but not a real poverty-reduction program. This is the most serious concern about the program, that it only temporarily alleviates the plight of the poor but doesn't offer sustainable improvement of their socio-economic situation. One political analyst claimed to have seen cases where, instead of going out to work, students repeated the last year of school to avoid losing their family's eligibility for assistance. Other commentators allege that some poor adults decline low-paying jobs in the formal sector for the same reason. Critics argue that Bolsa Familia should be temporary and focused on the poorest regions of the country instead of being both long-term and national. In addition, they say it will only work if integrated into a broader strategy of investment in education, health care, infrastructure, and economic opportunity. Brazil needs more economic growth to create jobs and gradually make Bolsa Familia unnecessary. The current model, they say, doesn't offer the poor - or the government - a way out of the program.

¶16. Supporters, on the other hand, stress that the money from Bolsa Familia is a way to ensure that poor children get an education and access to health care. "Bolsa Familia is a program for the future", wrote professor and economist Jos Marcio Camargo, of the Catholic University of Rio de Janeiro in an article published in Folha de Sao Paulo newspaper in late October. According to the professor, the income provided by Bolsa Familia helps poor families keep their children in school. Otherwise, they would start working at an early age and would remain at a severe disadvantage all their lives. They would likely not receive adequate health care in childhood, exacerbating their precarious situation and perpetuating Brazil's large social and economic disparities.

¶17. However, there is no way to determine with any reliability whether beneficiaries of cash transfer program are fulfilling the conditions. In contrast to the efficiency of the enrollment, there is no efficient system of monitoring compliance. Municipal secretariats of health and education are supposed to provide

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statistics on children's school attendance and vaccinations, but their reports are often delayed and incomplete. Representatives of all three levels of government assert that they suspend payments if a family falls out of compliance with the conditions, but they also recognize there's no way to be sure. Some observers claim that no beneficiary has ever lost benefits due to non-compliance, which, if true, would render the conditional aspects of the program toothless. Certainly the complexities of the overlapping programs and the sheer size of the databases make it hard to monitor compliance and prevent abuses, although the vigilant Brazilian press has exposed some cases of abuse. From the point of view of local, state and federal governments, expansion of social programs for its own sake is often considered a political achievement showing that they're taking care of people, so they have a stake in not removing people from the rolls.

COMMENT

¶18. Given the visibility it attained during the election campaign,

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it is likely that Bolsa Familia will continue to expand and evolve. A Senator recently introduced a bill that would give Bolsa Familia recipients a 13th month stipend, as if they were workers, though this proposal is unlikely to go anywhere. The GoB is reportedly in the process of increasing the size of monthly stipends, at an estimated cost of 1.2 billion Reals (USD 550 million), to fulfill one of Lula's campaign promises. Despite its rapid growth, the program still does not reach all of Brazil's poor. It is still a relatively new program and remains a work in progress. Officials of Lula's Workers Party (PT) acknowledge that Bolsa Familia by itself is not enough, and talk about improving it and bolstering it with complementary social investment. While it remains a small tool in the fight against poverty, it has the potential to become much more.
End Comment.

¶19. This cable was coordinated/cleared with Embassy Brasilia.

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